

period like the present. Yet, we are all conscious that these same inflationary pressures that have so profoundly permeated other sectors of the credit market have, for the time being, reduced the relative attractiveness of savings bonds. This is also a matter that we will be reviewing urgently in coming weeks.

We are very conscious of this problem, Senator.

Senator JORDAN. I have some questions for you, Mr. Walker.

I notice that you say that you intend to bring the whole tax system, State and local as well as Federal, under a careful and searching examination. Under what authority do you propose to study State and local taxation?

Mr. WALKER. That should be clarified, sir. As you well know, there are various proposals with respect to State and local revenue sharing with the Federal Government, as well as proposals for tax credits at the Federal level for income taxes paid to the States. We are not saying here that we are about to tell State and local governments what to do. But in order to reach decisions and make recommendations to the Congress as to the Federal tax structure, we must approach it as an integral whole.

Senator JORDAN. The State and local governments say that their sources of taxes have just about reached the point beyond which there is any more yield to be derived, and they intend to look to the Federal Government for tax sharing or perhaps vacating some areas of taxation to the States.

I hope you know that you will get into that.

Is that what you have in mind?

Mr. WALKER. Without endorsing any specific plan at this time that might have been advanced in this area, I think I can tell you that this administration is quite sympathetic to the problems which you so rightfully describe with respect to State and local taxation sources.

Senator JORDAN. On another point, among your studies will be the expiration of the role of value-added taxes used by a number of Western European countries. I have always felt that some countries used this device to operate against us in our balance of payments. Do you concur in that? And, if so, would you have any idea that you might recommend a value-added tax for this country?

Mr. WALKER. I will ask Mr. Volcker to comment on the balance-of-payments implications.

I am not at all sure that we can say that this is the whole purpose of the value-added tax in Western Europe. I will say that the value-added tax has important implications and perhaps great value for domestic purposes. And it has been recommended by certain responsible groups in this country as an appropriate approach to taxation in a major restructuring of the U.S. tax system.

This is a very, very complicated and difficult matter and, again, I do not want to prejudge. From a long-range standpoint, we think that this issue must be studied. And one aspect of it, of course, is the international implications which I will ask Mr. Volcker to comment on.

Mr. VOLCKER. This is a complex and contentious matter. But I personally share the feeling of a great many people that the way the value-added tax system operates in relation to the system of border tax adjustments used in Western Europe is such that the net result is to the disadvantage of our own trade position. This is an area in which we have a very considerable interest, whether or not the solution lies in a value-added tax in the United States, which is obviously dependent